

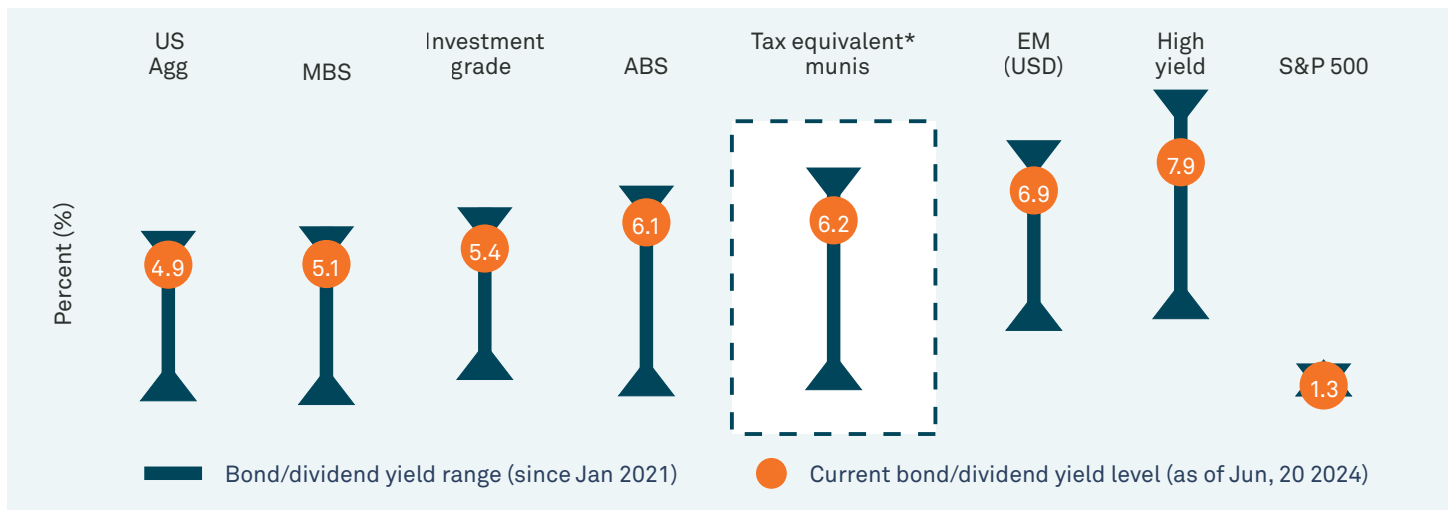
DON'T OVERLOOK MUNIS

An active municipal (muni) strategy should be a key part of an investor's portfolio, according to Insight Investment. Here, Insight shares why they believe the market offers competitive yields versus taxable investment grade bonds and has the potential for compelling fundamental and technical backdrops.

Tax-equivalent municipal bond yields are currently competitive with a record of safety relative to other investments, since the 1970s

Municipal bonds currently offer higher tax-equivalent yields than investment grade corporates, with a higher average rating of AA- according to Moody's.

TAX-EQUIVALENT MUNICIPAL YIELDS ARE CURRENTLY HIGH DESPITE HIGH CREDIT QUALITY¹



Data as of June 20, 2024. US Agg = Bloomberg US Aggregate Index; MBS = Bloomberg US Mortgage Backed Securities (MBS) Index; Investment grade = Bloomberg US Corporate Bond Index; ABS = Bloomberg US Aggregate ABS Index; Tax equivalent = Bloomberg Municipal Index; EM (USD) Emerging market hard currency = Bloomberg Emerging Markets Hard Currency Aggregate Index; High yield = Bloomberg US Corporate High Yield Bond Index; S&P 500 = S&P 500 Total Return Index. Please see index descriptions at the back of the document.

Municipals also offer potential diversification benefits relative to other asset classes like equities and lower rated corporate bonds. Total returns on municipal bonds have had a 0.3 correlation with high yield bonds and a 0.1 correlation with the S&P 500 since 2000 (based on monthly).¹ This demonstrates that monthly municipal bond returns have not always tended to move in the same direction as the other asset classes, which may benefit investors through tough markets (when higher risk assets tend to perform negatively).²

Correlation measures the degree to which the performance of a given asset class moves in relation to another, on a scale of -1 to 1. Negative 1 indicates a perfectly inverse relationship, 0 indicates no relationship and 1 indicates a perfectly positive relationship.

*Based on 40.8% tax bracket (37% top federal band plus 3.8% investment income Medicare surcharge)

1. Bloomberg, Insight calculations

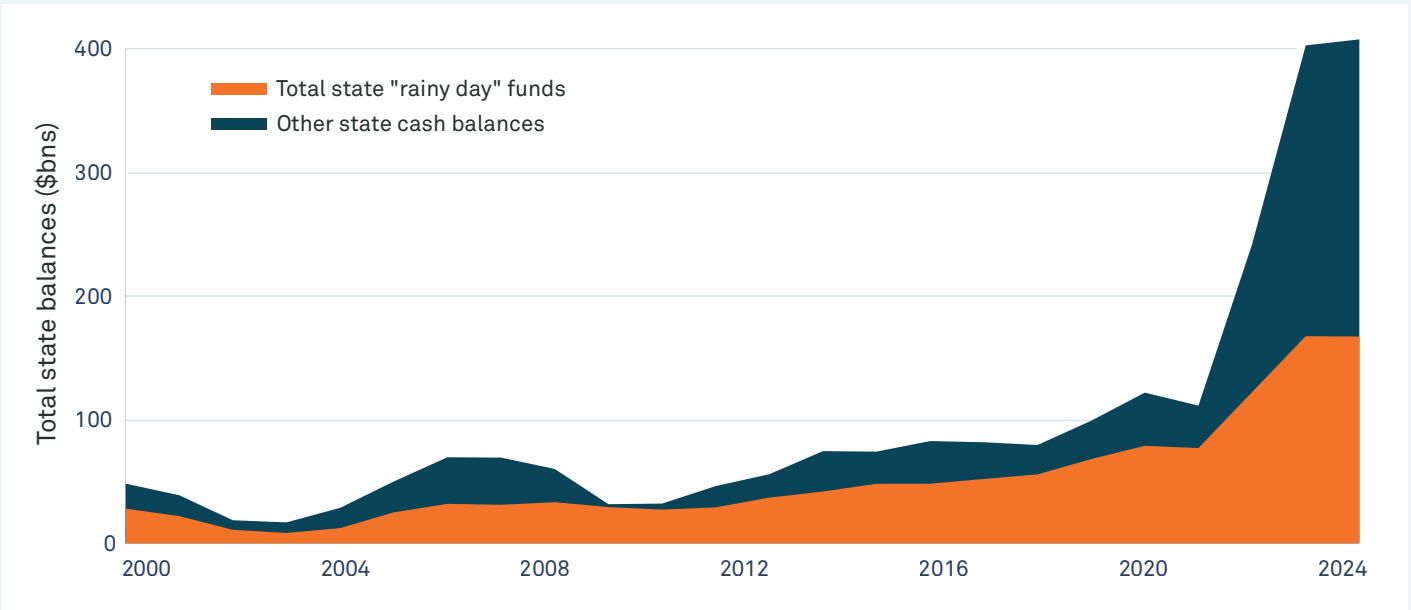
2. Moody's, "Moody's US Municipal Bond Defaults and Recoveries, 1970-2020," July 2021. Data show the average 10-year cumulative default rates of Moody's rated corporate and municipal bonds for a study covering the period 1970-2019. Default rates since 2019 may vary.

Charts are provided for illustrative purposes and are not indicative of the past or future performance of any BNY product.

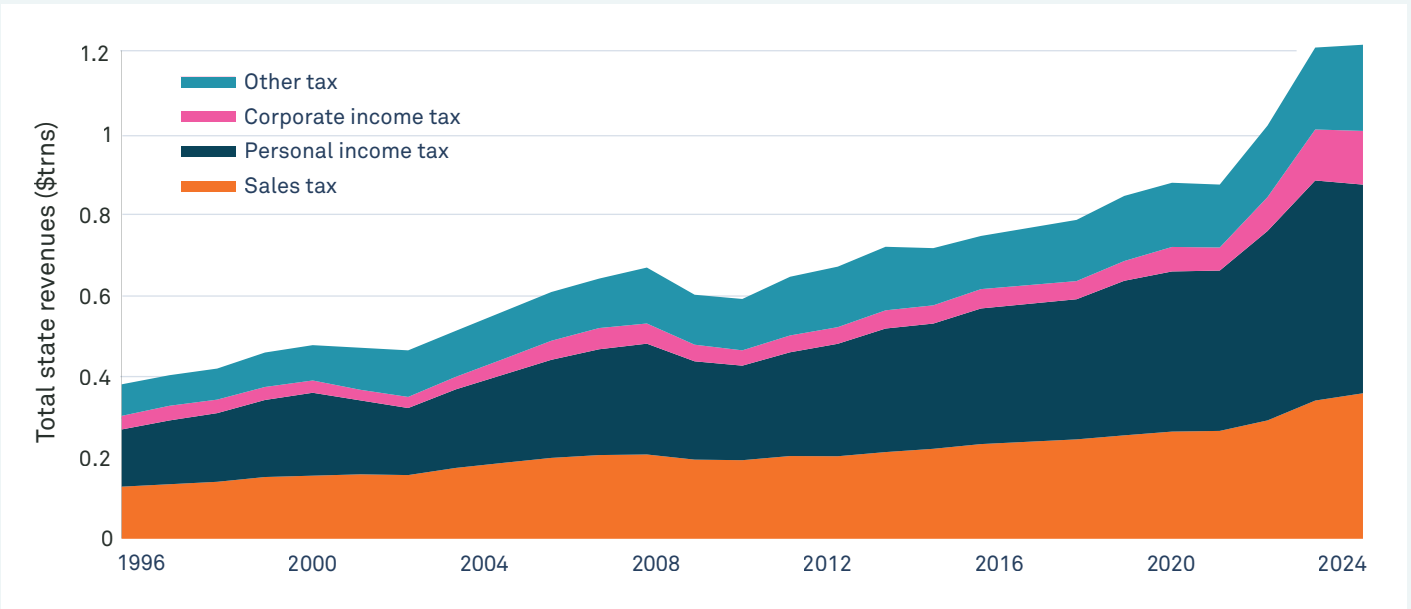
Municipals may be some of the most fundamentally attractive issuers today

Municipal credit conditions continue to remain resilient despite softening economic conditions. Since the pandemic, many states ramped up their “rainy-day” and other cash balance funds to record highs, in part as they were able to save pandemic-era federal stimulus. At the same time, tax revenues have risen across the board.

MUNICIPAL CASH BALANCES HAVE INCREASED³



Data as of June 20, 2024

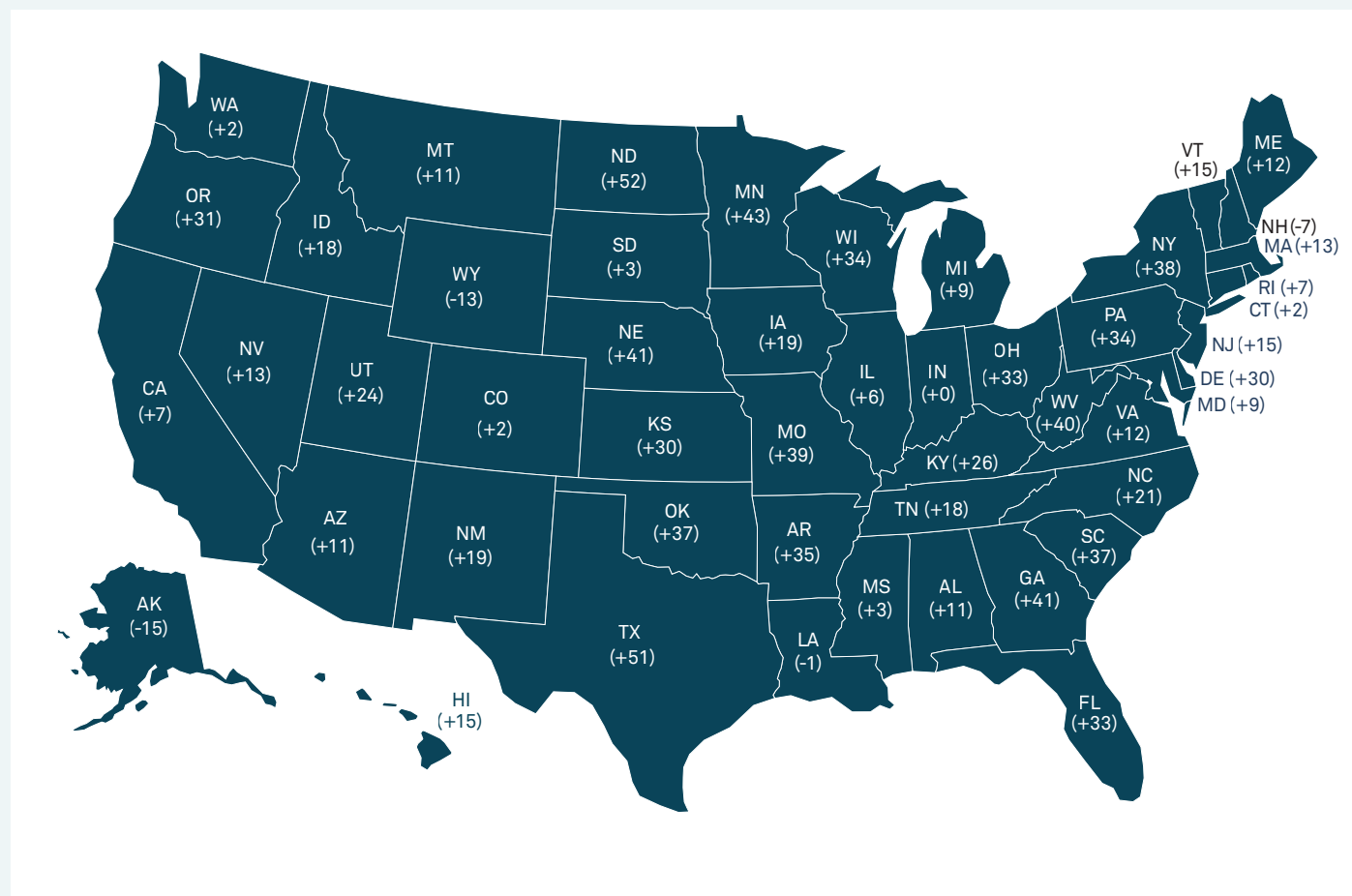


Data as of June 20, 2024

Certain state fiscal positions have notably strengthened since the pandemic (see map below). Those that have seen their cash balances fall were largely those that were already relatively cash rich. The average state's cash balances are now over 35% of annual expenditures.

STATE CASH BALANCES ARE GENERALLY HEALTHY ACROSS THE BOARD³

Change in state balances as a % of expenditure (2019 to 2023)



We expect the economic backdrop to remain supportive. The International Monetary Fund (IMF) projects the US will grow at double the pace of any of its G7 peers in 2024, with consumption continuing to be the leading driver of GDP.⁴

3. Pew Trust, National Association of State Budget Officers, December 2023

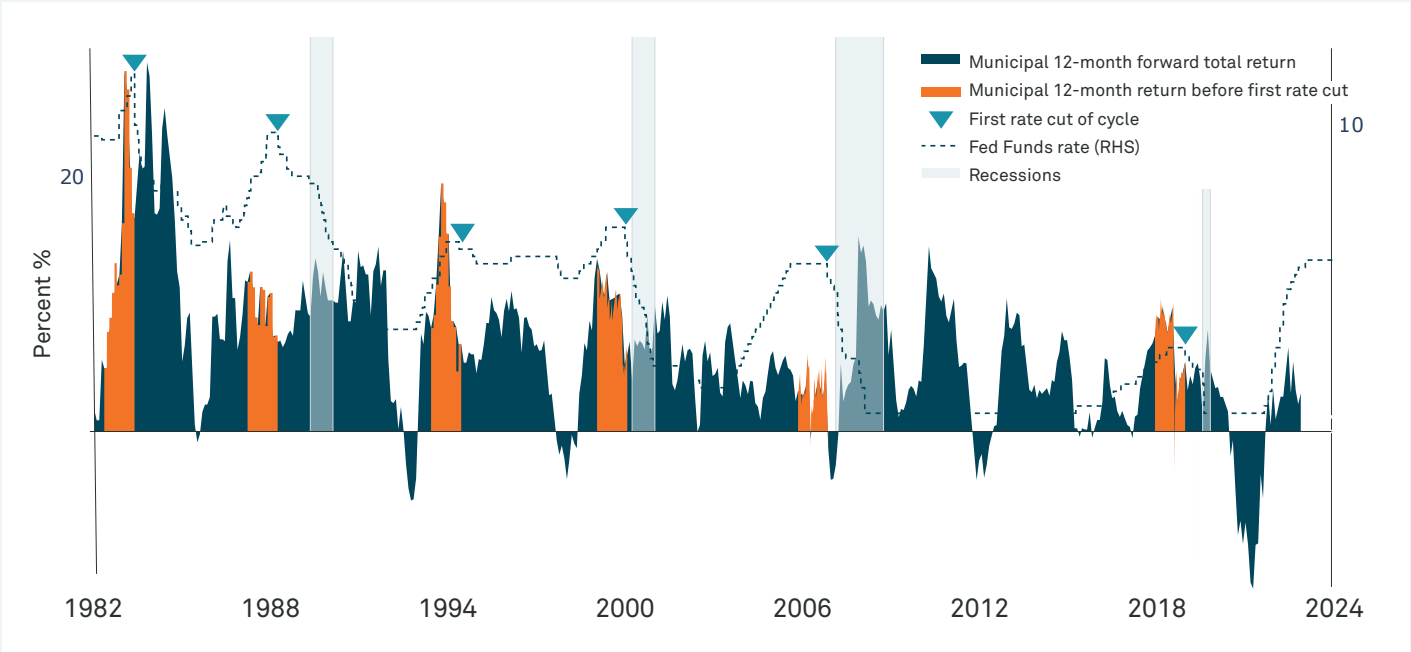
4. IMF, World Economic Outlook, April 2024

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Technicals also look compelling into year-end

Historically, in the months leading up to a rate cutting cycle, 1-year forward municipal returns have tended to be relatively high, reaching 8% to 10.4% on average (versus a 7% average on the date of each cutting cycle).⁵ We believe the next rate cutting cycle may begin later this year, making the current environment a potentially attractive entry point.

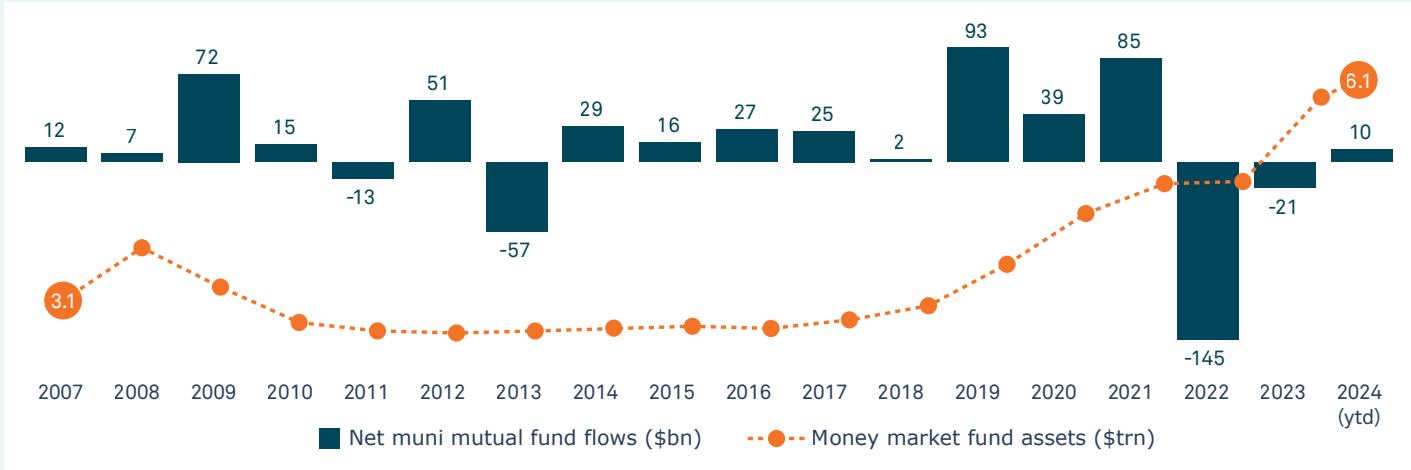
MUNICIPAL BONDS HAVE HISTORICALLY OFFERED PARTICULARLY ATTRACTIVE RETURNS JUST BEFORE RATE CUTS⁵



Data as of June 13, 2024

We expect inflows into the muni market to pick up as they have been largely negative since 2022 with many investors retreating to cash instead of risk assets (below). However, if rates fall, we expect many cash investors to convert to intermediate-term muni bonds.

INFLOWS COULD BE PRIMED TO PICK UP IF INTEREST RATE CUTS BECOME A REALITY⁶



Data as of June 13, 2024

5. Bloomberg Municipal Bond Index, June 2024

6. Bloomberg, May 2024

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Issuers appear to be keen to meet their year-end 2024 financing needs ahead of the US Presidential election in the fall. April and May 2024 were the busiest months for municipal bond issuance since early 2022.⁷ We expect lower supply will be supportive of a more technical environment ahead of the fall election season.

You might not need to worry about the US Presidential election

This year's presidential election looks too-close-to-call, but we do not foresee major complications either way.

Expect more gridlock

- 1** We expect another split US Congress in 2025, regardless of who wins the election. The losing party will therefore likely act as a continued roadblock for the president's agenda. It would likely mean more of the same for municipals.
- 2** Fiscal policy will be the main issue under a blue or red sweep in our view.
- 3** Fiscal policy is the major economic differentiator between the two candidates.

We also believe the winner will need to address the debt limit (which was suspended last year through January 2025).

They will also need to address the fate of several expiring provisions from the 2017 Tax Cuts and Jobs Act, which are set to expire at the end of 2025. These include personal income tax rates, standard deductions, personal exemptions, estate and gift taxes and the child tax credit — all of which are set to revert to their pre-2017 levels (albeit in some cases with inflation adjustments).

Some provisions directly impact municipal issuers, such as one of the reforms designed to help pay for tax cuts – the \$10,000 cap

on itemized “SALT” (state and local income sales and property tax) deductions, the expiry of which would likely make high tax states more attractive for residents. Others, like the expiration of alternative minimum tax (AMT) policies, may impact muni investors.

If taxes were to rise, it could be marginally beneficial for municipal investors, overall, but we do not expect a major impact either way.*

*This information is general in nature and is not intended to constitute tax advice. Please consult your own legal or tax advisor for more detailed information on tax issues and advice as they relate to your specific situation.

7. SIFMA, May 2024

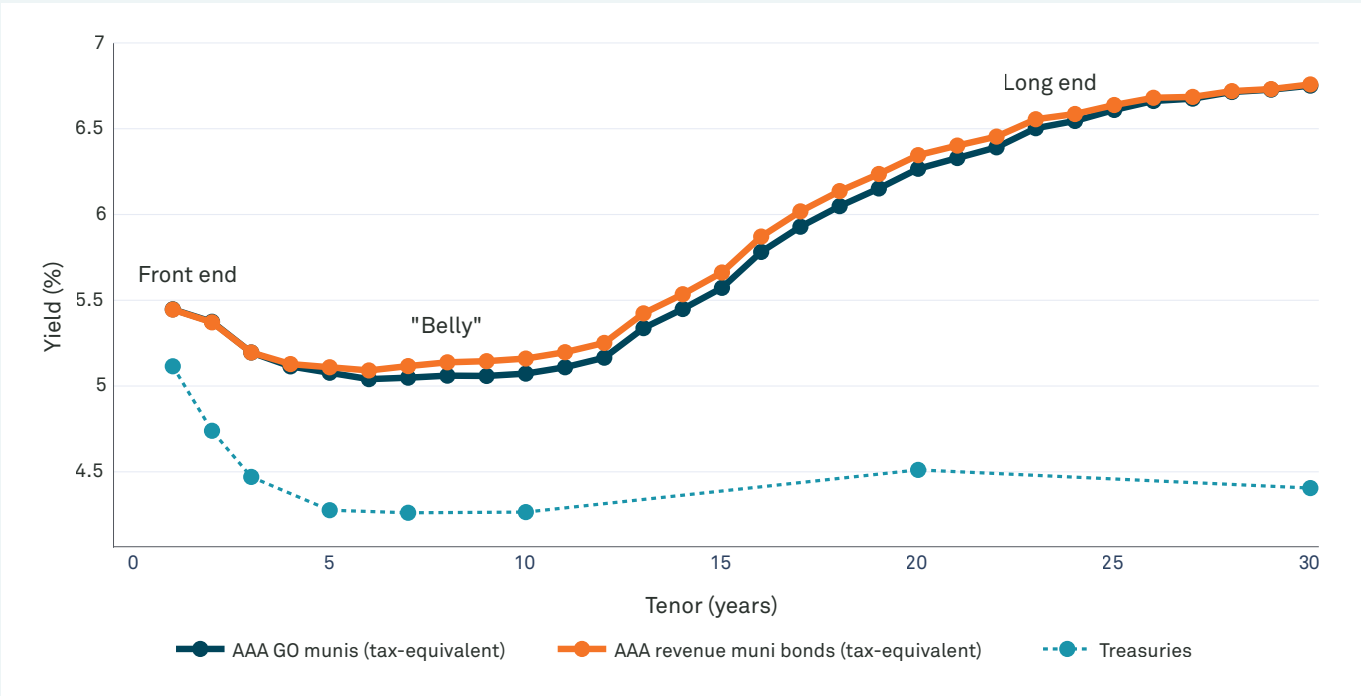
An active approach may offer potential advantages over passive strategies

Investors often look to passive municipal strategies, such as ETFs and passive “bond ladders.” However, their yields can be relatively low. In our view, an active strategy has the potential to offer outperformance under the right circumstances.

1 Active strategies strive to target the most attractive areas of the yield curve.

Active strategies strive to ignore the “belly” of the curve, where yields are currently relatively low, in favor of a “barbell” approach, focusing on shorter and longer-dated bonds, while still targeting overall duration in line with the market (or as desired).

ACTIVE STRATEGIES LOOK TO AVOID THE “BELLY” OF THE CURVE IN THE CURRENT ENVIRONMENT⁸



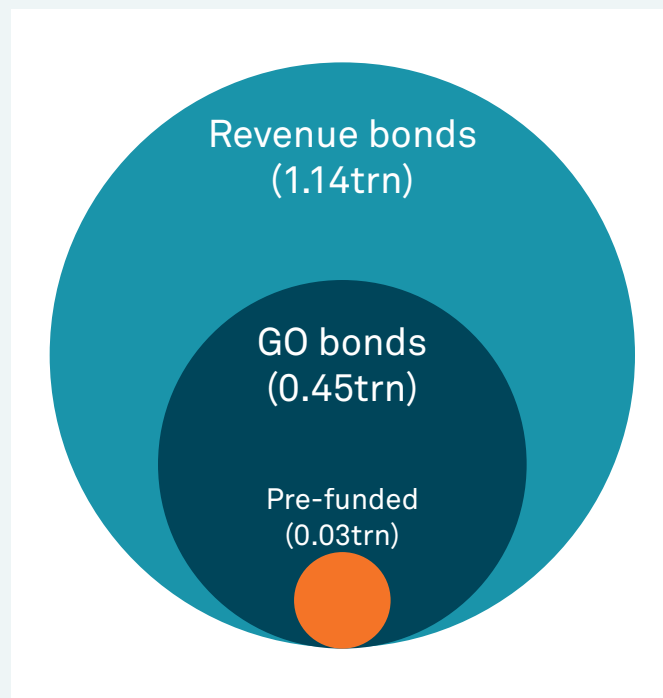
Data as of June 18, 2024

8. Bloomberg, May 2024.
Charts are provided for illustrative purposes and are not indicative of the past or future performance of any BNY product.

2 Active managers can target revenue bonds over general obligation (GO) bonds.

Investors often focus on GO bonds, even though they account for less than a third of the municipal market. The \$1.1trn revenue bond market is harder to analyze results and is less efficient providing opportunities for active managers.

REVENUE BONDS ARE THE LARGEST MARKET, BUT MAY GET LESS ATTENTION FROM INVESTORS⁹



Data as of June 18, 2024

In our view, around ~80% of a municipal bond allocation should be tilted toward revenue bonds. Currently, we think public transport, like airports and toll roads (except for mass transit) offer value given the continued pent-up demand for post-pandemic travel.

The end of the pandemic has also offered relief to the healthcare sector, given reduced admissions, the return of higher margin elective procedures and potential industry consolidations. Hospitals are the third largest revenue bond sector and second highest yielding.⁹

Although we believe GO bonds are ultimately robust, we expect them to be subject to headline risk and volatility, particularly as election season draws in, given their heavy retail investment base. Large cities also face challenges from falling commercial property tax revenues (given struggles in sectors like offices). The surge in immigration from the US Southern border is also placing notable burdens on “sanctuary cities” such as New York and Chicago.

We believe investors need to partner with a skilled and well-resourced active municipal bond manager capable of analyzing diverse municipal credits across the large universe of revenue bonds.

9. Bloomberg Municipal Bond Index, May 2024

Charts are provided for illustrative purposes and are not indicative of the past or future performance of any BNY product.

Conclusion: Don't Overlook Munis

We believe we are entering a dynamic shift into fixed income with yields potentially at the top of the cycle and rate cuts seemingly on the agenda.

In our view, an active municipal bond strategy should be a key part of a fixed income strategy given:

- Current competitive tax-efficient yields versus taxable investment grade bonds
- Potential diversification against an investor's equity and high yield corporate bond holdings
- High cash balances and historically attractive fundamentals¹⁰
- Potentially favorable demand and supply dynamics into year-end and ahead of the potential first Fed rate cut of the cycle

10. Pew Trust, National Association of State Budget Officers, December 2023.

All investments involve risk, including the possible loss of principal. Certain investments involve greater or unique risks that should be considered along with the objectives, fees, and expenses before investing.

Bonds are subject generally to interest-rate, credit, liquidity, call and market risks, to varying degrees. Generally, all other factors being equal, bond prices are inversely related to interest-rate changes and rate increases can cause price declines. **Investment grade** is a rating of fixed-income bonds, bills, and notes by credit rating agencies. **High yield bonds** are subject to increased credit risk and are considered speculative in terms of the issuer's perceived ability to continue making interest payments on a timely basis and to repay principal upon maturity. **General obligation bond** (GO bond) is a municipal bond backed solely by the credit and taxing power of the issuing jurisdiction rather than the revenue from a given project. The **taxable-equivalent yield** is the return that a taxable bond fund needs to possess for its yield to equal the yield on a comparable tax-exempt bond fund, such as a municipal bond fund. **Correlation** is a statistic that measures the degree to which two securities move in relation to each other. **Technical analysis** is a trading discipline employed to evaluate investments and identify trading opportunities by analyzing statistical trends gathered from trading activity.

The amount of public information available about municipal securities is generally less than that for corporate equities or bonds. Legislative changes, state and local economic and business developments, may adversely affect the yield and/or value of municipal securities. Other factors include the general conditions of the municipal securities market, the size of the particular offering, maturity of the obligation, and the rating of the issue. Income for national municipal funds may be subject to state and local taxes. Income may be subject to state and local taxes for out-of-state residents. Some income may be subject to the federal alternative minimum tax for certain investors. Capital gains, if any, are taxable.

Asset allocation and diversification cannot assure a profit or protect against loss.

S&P 500 Index is widely regarded as the best single gauge of large-cap US equities. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization. **Rate cuts** is when the FOMC starts cutting rates. **The Bloomberg U.S. Municipal Bond Index** covers the U.S. dollar-denominated longterm tax-exempt bond market. The **Bloomberg US Aggregate Index** is a broad-based benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. **Bloomberg U.S. Corporate Bond Index** measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate bond market. **Bloomberg US Mortgage Backed Securities (MBS) Index** is an unmanaged index comprising 15- and 30-year fixed-rate securities backed by mortgage pools of Ginnie Mae, Freddie Mac and Fannie Mae. **Bloomberg US Asset-Backed Security (ABS) Index** is the ABS component of the Bloomberg US Aggregate Bond Index, a flagship measure of the U.S. investment grade, fixed-rate bond market. The ABS index has three subsectors: credit and credit cards, autos and utility. **Bloomberg Emerging Markets Hard Currency Aggregate Index** measures the performance of hard currency Emerging Markets (EM) debt, including fixed and floating-rate U.S. dollar-denominated debt issued from sovereign, quasi-sovereign, and corporate EM issuers. **Bloomberg US Corporate High Yield Bond Index** measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Indexes are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited ("BISL"), the administrator of the index (collectively, "Bloomberg") and have been licensed for use for certain purposes by BNY. Bloomberg is not affiliated with BNY, and Bloomberg does not approve, endorse, review, or recommend BNY Mellon Municipal Funds. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to BNY Mellon Municipal Funds.

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